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In the Supreme Court of the United States

OCTOBER TERM, 1978

PACIFIC GAS AND ELECTRIC COMPANY, PETITIONER

v.

CITY OF SANTA CLARA, CALIFORNIA, ET AL.

CITY OF SANTA CLARA, CALIFORNIA, PETITIONER

v.

JAMES R. SCHLESINGER, SECRETARY OF ENERGY, ET AL.

ON PETITIONS FOR A WRIT OF CERTIORARI TO THE
UNITED STATES COURT OF APPEALS FOR
THE NINTH CIRCUIT

BRIEF FOR THE FEDERAL RESPONDENTS
IN OPPOSITION

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INDEX

	Page
Opinions below	2
Jurisdiction	2
Questions presented	2
Statement	3
Argument	8
Conclusion	17

CITATIONS

Cases:

<i>Arizona v. California</i> , 373 U.S. 546	9
<i>Arizona Power Authority v. Morton</i> , 549 F.2d 1231, certiorari denied, 434 U.S. 835	9, 10
<i>Citizens to Preserve Overton Park, Inc. v.</i> <i>Volpe</i> , 401 U.S. 402	8
<i>Gonzalez v. Freeman</i> , 334 F.2d 570	12
<i>Ivanhoe Irrigation District v. McCracken</i> , 357 U.S. 275	4
<i>Meachum v. Fano</i> , 427 U.S. 215	14
<i>Memphis Light, Gas & Water Division v.</i> <i>Craft</i> , No. 76-39, decided May 1, 1978	15
<i>Morton v. Ruiz</i> , 415 U.S. 199	12
<i>Northern California Power Agency v.</i> <i>Morton</i> , 396 F. Supp. 1187, affirmed, 539 F.2d 243	12
<i>Panama Canal Co. v. Grace Line, Inc.</i> , 356 U.S. 309	10
<i>Perry v. Sindermann</i> , 408 U.S. 593	14
<i>Smith v. Organization of Foster Families</i> , 431 U.S. 816	15
<i>Strickland v. Morton</i> , 519 F.2d 467	10

II	
Cases—Continued	Page
<i>Train v. Natural Resources Defense Council</i> , 421 U.S. 60	16
<i>Udall v. Tallman</i> , 380 U.S. 1	16
<i>W. G. Cosby Transfer & Storage Corp. v. Froehlke</i> , 480 F.2d 498	12
Constitution and statutes:	
United States Constitution, Fifth Amendment, Due Process Clause	3, 8, 12, 14
Administrative Procedure Act, 5 U.S.C. 551 <i>et seq.</i> :	
5 U.S.C. 552(a) (1)	11, 12, 13
5 U.S.C. 552(a) (1) (C)	11
5 U.S.C. 552(a) (1) (D)	11
5 U.S.C. 553(a) (2)	13
5 U.S.C. 701(a) (2)	7, 8
5 U.S.C. 702	8
Department of Energy Organization Act, Pub. L. 95-91, 91 Stat. 565 <i>et seq.</i> :	
Section 302(a) (1) (E), 91 Stat. 578	13
Section 501(b) (3), 91 Stat. 588	13
Section 705(c), 91 Stat. 607	13
Section 705(e), 91 Stat. 607	2
Flood Control Act of 1944, Section 5, 58 Stat. 890, 16 U.S.C. 825s	9
Reclamation Project Act of 1939, Section 9(c), 53 Stat. 1194, as amended, 43 U.S.C. 485h(c)	2, 4, 7, 9, 10, 16
50 Stat. 850	4

III	
Miscellaneous:	Page
Hearings on S. 674, S. 675 and S. 918 before the Senate Committee on the Judiciary, 77th Cong., 1st Sess. (1941)	11-12
H.R. Rep. No. 1980, 79th Cong., 2d Sess. (1946)	12
S. Rep. No. 752, 79th Cong., 1st Sess. (1945)	12

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(1)

OPINIONS BELOW

The opinion of the court of appeals, as amended (Pet. App. 1a-38a),¹ is reported at 572 F.2d 660. The opinion of the district court (Pet. App. 39a-81a) is reported at 418 F. Supp. 1243.

JURISDICTION

The judgment of the court of appeals was entered on February 1, 1978. Petitions for rehearing filed by the City of Santa Clara ("Santa Clara") and by Pacific Gas and Electric Company ("PG & E") were denied by the court of appeals on April 4, 1978. The petitions for a writ of certiorari were filed on July 3, 1978. The jurisdiction of the Court is invoked under 28 U.S.C. 1254(1).

QUESTIONS PRESENTED

The Secretary of the Interior² must give a "preference * * * to municipalities and other public corporations or agencies," 43 U.S.C. 485h(c), in the sale of hydroelectric power generated by the federal Central

¹ "Pet. App." refers to the appendix in No. 78-35.

² The Secretary of the Interior has been named as the federal respondent throughout this litigation. The issues involved in this case will continue to be determined under the statutes setting forth the authority of the Secretary of the Interior. See note 11, *infra*. Pursuant to Section 705(e) of the Department of Energy Organization Act, Pub. L. 95-91, 91 Stat. 607, however, we have substituted the Secretary of Energy for the Secretary of the Interior as the respondent in this petition. See also note 11, *infra*.

Valley Project (CVP). The petitions present the following questions concerning the Secretary's authority to allocate CVP electrical power among "preference" customers.

Petition No. 78-35:

1. Whether decisions of the Secretary allocating CVP electrical power among preference customers are subject to judicial review.

2. Whether the Secretary must formulate and publish rules of procedure for allocating CVP electrical power among preference customers.

3. Whether the Secretary violated the Due Process Clause of the Fifth Amendment in his decision to withdraw a portion of the CVP electrical power allocated to petitioner Santa Clara.

Petition No. 78-9:

4. Whether a "conditional sale" of CVP electrical power to a non-preference customer—whereby the purchaser undertakes to return equivalent power to the Secretary on demand at a future date—violates the statutory preference requirement.

5. If so, whether sales of CVP electrical power made in violation of the "preference" requirement may be rescinded and retroactively allocated to a particular preference customer by judicial order.

STATEMENT

The Central Valley Project ("CVP") is a multi-purpose federal reclamation project located in the

Central Valley of California.³ The CVP generates a substantial amount of hydroelectric power, which the Secretary of the Interior distributes to a large number of users in Northern and Central California (Pet. App. 2a). Section 9(c) of the Reclamation Project Act of 1939, 53 Stat. 1194, as amended, 43 U.S.C. 485h(c), provides that, in marketing the electrical power generated by the federal reclamation project, the Secretary is to give a "preference * * * to municipalities and other public corporations or agencies."

The electrical power generated by CVP sells at a price substantially below the price charged by private electrical utilities (Pet. App. 3a n. 2). Accordingly, the demand for CVP power ordinarily exceeds the available supply, and the Secretary has found it necessary to allocate the CVP power among the many claimants (*id.* at 2a-3a).

Santa Clara first sought an allocation of CVP power in June 1960. At the time its application was filed, however, the city was under contract to purchase all of its electrical power from PG & E. On February 19, 1962, Santa Clara reviewed its application and acknowledged that it was unable to provide a market for federal power until the expiration of

³ The CVP was authorized for the purpose of improving navigation, regulating the flow of rivers, providing for water storage and delivery, reclaiming land, "and for the generation and sale of electric energy as a means of financially aiding and assisting such undertakings and in order to permit the full utilization of the works constructed to accomplish the aforesaid purposes." 50 Stat. 850. A detailed description of the CVP is contained in *Ivanhoe Irrigation District v. McCracken*, 357 U.S. 275, 280-283.

the city's contract with PG & E on August 27, 1967. The Secretary then informed the city that he would keep Santa Clara's application on file for consideration nearer the time the city would be free to purchase federal power (Pet. App. 3a).

New electrical generating facilities were opened at CVP in 1964. The Secretary allocated the power generated by these facilities to preference customers who were able to make immediate use of it. One year later, in response to Santa Clara's repeated requests, the Secretary entered into a contract with Santa Clara to supply the City with 75,000 kilowatts of CVP power on a withdrawable basis. At the time the contract was concluded, the Secretary told the City that all anticipated power from CVP facilities was committed to meet the growth needs of existing preference customers, and the contract specifically provided that the Secretary could unilaterally reduce the amount of power delivered to Santa Clara (R. 54; Exh. 7). During the first few years of this contract, Santa Clara's allotment was revised upwards several times. In 1970, however, the Secretary began withdrawing power from Santa Clara to meet the needs of other preference customers (Pet. App. 3a-5a). Santa Clara replaced the CVP power by purchasing electricity from PG & E.

During this period, the Secretary also made "conditional sales" of CVP power to PG & E, a non-preference customer. Under the conditional sales agreement, PG & E received the power as a "bank" for the Project, and it undertook to return the power

on CVP's demand in the future. The purpose of this arrangement was to assure that a steady supply of power would be available to CVP preference customers in periods where CVP production fell below minimum levels of firm demand.

In July 1975 Santa Clara filed this action in the United States District Court for the Northern District of California challenging the legality of the Secretary's decisions reducing Santa Clara's allocation of CVP power. Santa Clara also asserted that the CVP power that was being "banked" with PG & E was being sold by the Secretary in violation of the "preference" requirement of the Reclamation Act. The city contended that its deliveries of power from PG & E were, in fact, indirect purchases of CVP power and that the City was entitled to this power as a "preference" customer. Santa Clara refused to pay bills submitted to the city by PG & E and instead paid the sums claimed due into an escrow account. PG & E then intervened in this lawsuit as a defendant and filed a counterclaim against the City for the amount of the funds deposited by Santa Clara in the escrow account (Pet. App. 5a).

The district court ruled largely in the City's favor. The court held that decisions by the Secretary allocating CVP power are judicially reviewable, that the Secretary erred in failing to promulgate rules of procedure governing the allocation of such power, and that the Secretary's actions had denied due process of law to Santa Clara (Pet. App. 51a-75a). The court directed the Secretary (1) to develop and promulgate

appropriate procedures for the allocation of CVP power and (2) to apply those procedures to determine "what Santa Clara's allocation during the withdrawal period *would* have been" had the appropriate procedure been employed (*id.* at 75a-77a) (emphasis in original). Pending the Secretary's determination pursuant to this order, the court directed all payments for the power received by Santa Clara from PG & E to be retained in the escrow account (*id.* at 76a-77a).⁴

The court of appeals affirmed in part, reversed in part and remanded to the district court for further proceedings. The court held (Pet. App. 9a-13a) that the Secretary's allocation of CVP power among "preference" customers is not judicially reviewable because it is "agency action * * *,* committed to agency discretion by law." 5 U.S.C. 701(a)(2). The court held, however, that sales of CVP power to non-preference customers are judicially reviewable and that "conditional sales" of CVP power to non-preference customers are not valid unless they are made for the limited purpose of protecting "the efficiency of the project for irrigation purposes." 43 U.S.C. 485h(c) (Pet. App. 19a-20a). The court held that the district court should determine on remand whether the "conditional sales" to the non-preference customer in this case were justified by this statutory objective

⁴ The district court subsequently modified its order to permit 25 percent of the escrow funds to be released to PG & E. 428 F. Supp. 315.

(*id.* at 20a).⁵ The court of appeals determined that no additional administrative proceedings were required in this case, however, because, contrary to the decision of the district court, the Secretary is not required to promulgate procedures for the allocation of CVP power and the Secretary did not violate the Due Process Clause when he reduced the allocation of CVP power to Santa Clara without conducting a hearing (Pet. App. 21a-30a).

ARGUMENT

1. Petitioner Santa Clara contends (78-35 Pet. 10-16) that the Secretary's decisions allocating CVP power among "preference" customers are reviewable under the Administrative Procedure Act, 5 U.S.C. 702. This Act, however, does not provide for judicial review of "agency action * * * committed to agency discretion by law." 5 U.S.C. 701(a)(2). Although the Act generally favors judicial review, Section 701(a)(2) provides an exception "in those rare instances where 'statutes are drawn in such broad terms that in a given case there is no law to apply.'" *Citizens to Preserve Overton Park, Inc. v. Volpe*, 401 U.S. 402, 410.

The court of appeals correctly concluded (Pet. App. 9a-13a) that Congress has not established legal standards for the courts to employ in reviewing the alloca-

⁵ The court also left open on remand other questions concerning Santa Clara's claim that it was entitled to the power received by PG & E or capable of utilizing it at the time the conditional sales were made (*ibid.*).

tion of CVP power among "preference" customers, and that the Secretary's decisions thus are not judicially reviewable. Section 9(c) of the Reclamation Act, 43 U.S.C. 485h(c), provides only that the Secretary is to give a "preference" to municipalities and other public corporations in the sale of CVP power. The statute provides no guidance to either the Secretary or the courts about how to distinguish between competing "preference" customers in allocating the limited power available. It is the ordinary rule that "[t]he general authority [conferred on a federal agency] to make contracts normally includes the power to choose with whom and upon what terms the contracts will be made. When Congress in an Act grants authority to contract, that authority is no less than the general authority, unless Congress has placed some limit on it." *Arizona v. California*, 373 U.S. 546, 580. Since Congress has placed no limitations on the Secretary's discretion to allocate CVP power among preference customers, the Secretary has the same discretion that any private party would have to choose customers when demand exceeds supply. The allocation is not subject to judicial review. See *Arizona Power Authority v. Morton*, 549 F.2d 1231, 1241 (C.A. 9), certiorari denied, 434 U.S. 835.

Petitioner Santa Clara points out (78-35 Pet. 11-12) that Section 5 of the Flood Control Act of 1944, 58 Stat. 890, 16 U.S.C. 825s, requires the Secretary to dispose of power "in such manner as to encourage the most widespread use thereof," and it contends that this provides a legal standard to guide the Secretary's

allocation of CVP power among preference customers. As the court of appeals observed, however, this statute is inapplicable to the CVP project (which is administered by the Bureau of Reclamation) because, "[b]y its terms [Section 825s] governs only the sale of power generated by flood control projects operated by the Department of the Army" (Pet. App. 11a; see *id.* at 88a-89a). Moreover, even if this statute were applicable to the CVP project, it provides no standard for administrative conduct against which the Secretary's action can be measured. See *Arizona Power Authority v. Morton*, *supra*, 549 F.2d at 1252. Literal application of the "most widespread use" standard would produce absurd and unrealistic consequences.⁶ There is nothing in the statute to guide any choice among more moderate interpretations of the standard, and the statute thus preserves "the exercise of the widest administrative discretion by the Secretary" (Pet. App. 11a). See *Strickland v. Morton*, 519 F.2d 467, 469-470 (C.A. 9). As this Court held in *Panama Canal Co. v. Grace Line, Inc.*, 356 U.S. 309, 318, "where the duty to act turns on matters of doubtful or highly debatable inference from large or loose statutory terms, the very construction of the statute is a distinct and profound exercise of discretion."

2. Petitioner Santa Clara contends (78-35 Pet. 16-22) that the Secretary is required by the Admin-

⁶ Thousands of "municipalities and other public corporations or agencies," 43 U.S.C. 485h(c), could seek allocations of preference power, and each would receive a trivial amount if the "most widespread use" standard meant that every applicant should receive some power.

istrative Procedure Act to develop and promulgate rules to be followed in allocating CVP power among "preference" customers. Petitioner relies on 5 U.S.C. 552(a)(1)(C), (D), which provide that each agency is to publish in the Federal Register "rules of procedure * * * [and] substantive rules of general applicability adopted as authorized by law, and statements of general policy or interpretations of general applicability formulated and adopted by the agency * * *."

The publication requirement of the APA does not independently create any duty for agencies to adopt rules, regulations or statements of general applicability. It requires only that, when such rules or statements are "formulated and adopted" by the agency, they must be published. Dean Acheson, Chairman of the committee appointed by President Roosevelt to make recommendations for improving administrative procedure, testified before the Senate Judiciary Committee as to the scope of the proposed predecessor to the current provision in 5 U.S.C. 552(a)(1):

There has been some misunderstanding about the scope of [this provision]. It is not intended to require agencies to make up policies and interpretations of law, or procedures, out of whole cloth merely for the sake of making them. Rather this section is intended to require agencies to make available to the public those policies and procedures which have become crystallized, which through experience have been formulated and adopted.

Hearings on S. 674, S. 675 and S. 918 before the Senate Committee on the Judiciary, 77th Cong., 1st

Sess. 829 (1941).⁷ As the court of appeals discussed at length in this case (Pet. App. 23a-24a), the legislative history of the Administrative Procedure Act indicates that, in enacting the publication requirement, Congress "sought only to insure that those administrative rules which had 'crystallized' would be made available to the public * * *" (*id.* at 24a).⁸

The court of appeals correctly determined that the publication requirement of 5 U.S.C. 552(a)(1) is applicable only when the agency has in fact formulated and adopted procedures.⁹ Petitioner Santa Clara's very theory of this case, however, has been that the Secretary has not formulated rules for allo-

⁷ See also S. Rep. No. 752, 79th Cong., 1st Sess. 12 (1945); H.R. Rep. No. 1980, 79th Cong., 2d Sess. 21-22, 28 (1946).

⁸ Petitioner cites three cases for the proposition that the publication requirement of Section 552(a)(1) creates a duty for agencies to formulate rules of procedure (78-35 Pet. 18). In two of these cases, however, the courts concluded that the agency's substantive statute, and not the publication requirement of the APA, required the agency to adopt hearing procedures. For example, in *Gonzalez v. Freeman*, 334 F.2d 570, 580 (C.A.D.C.), the court relied on its "interpretation of the [Commodity Credit] Act" in determining that a hearing requirement was implicit in the agency's statutory scheme. See also *W. G. Cosby Transfer & Storage Corp. v. Froehlke*, 480 F.2d 498, 503 (C.A. 4). In the third case, *Northern California Power Agency v. Morton*, 396 F. Supp. 1187, 1191, 1193 (D. D.C.), affirmed, 539 F.2d 243 (C.A.D.C.), the court stated that the Due Process Clause required a "limited on-the-record" hearing, and it determined that the agency's "informal explanations of [its] contemplated procedures left many important areas impermissibly vague and undefined."

⁹ Cf. *Morton v. Ruiz*, 415 U.S. 199, 234-235.

cating CVP power among preference customers.¹⁰ Accordingly, the court correctly concluded that the publication requirement of 5 U.S.C. 552(a)(1) is inapplicable in this case.

Furthermore, no other provision of the APA or of the Reclamation Act requires the Secretary to adopt uniform rules for the allocation of CVP power. The decisions of the Secretary allocating CVP power are exempt from the rulemaking procedures of the APA because they concern "public property, loans, grants, benefits, or contracts." 5 U.S.C. 553(a)(2). See Pet. App. 25a.¹¹

¹⁰ Petitioner Santa Clara asserts in this Court for the first time (78-35 Pet. 17) that the Secretary has adopted an allocation procedure. This assertion is inconsistent with the record in this case (see Pet. App. 25a, 68a).

¹¹ On October 1, 1977, the power marketing functions of the Secretary of the Interior were transferred to the Secretary of Energy. Section 302(a)(1)(E), 91 Stat. 578. Under the organizational Act of the Department of Energy, the exemption from rulemaking requirements established in 5 U.S.C. 553(a)(2) for matters relating to public property and contracts is not available. Section 501(b)(3), 91 Stat. 588. Petitioner Santa Clara thus asserts (78-35 Pet. 20) that, after October 1, 1977, all CVP power must be allocated in conformance with APA rulemaking procedures.

The removal of the rulemaking exemption is irrelevant to the proper disposition of this case. The Department of Energy Organization Act is not intended to have retroactive application or to apply to pending litigation. Section 705(c) of the Act, 91 Stat. 607, specifically provides that:

the provisions of this Act shall not affect suits commenced prior to the date this Act takes effect, and * * * in all such suits, proceedings shall be had, appeals taken,

3. Petitioner Santa Clara maintains (78-35 Pet. 22-26) that the Secretary violated the Due Process Clause when he withdrew CVP power from Santa Clara and reallocated it to other preference customers. The Due Process Clause is inapplicable to the Secretary's decision, however, because Santa Clara possessed no legitimate claim of entitlement or other property interest that was affected by the Secretary's reallocation of CVP power among preference customers. As the court of appeals stated, "[w]hile the City enjoys a statutory preference under the reclamation laws, the Secretary remains free to allocate the total power output of the CVP to other preference users" (Pet. App. 29a). Since the city possesses no "property" interest in CVP as against other preferred entities * * * no procedural safeguards are constitutionally required in deciding between them" (*ibid.*). See generally *Meachum v. Fano*, 427 U.S. 215.

Petitioner contends that, despite the absence of formal rules governing the allocation of CVP power among preference customers, there are informal rules and understandings that provide Santa Clara an entitlement to continued receipt of CVP power in non-diminishing quantities. Petitioner relies on *Perry v. Sindermann*, 408 U.S. 593, 601, which states that

and judgments rendered in the same manner and effect as if this Act had not been enacted.

Since this suit was commenced prior to October 1, 1977, judgment in this case is to be "rendered in the same manner and effect as if this Act had not been enacted." *Ibid.*

[a] person's interest in a benefit is a "property" interest for due process purposes if there are such rules or mutually explicit understandings that support his claim of entitlement to the benefit * * *.

In this case, however, there are no "rules or mutually explicit understandings" supporting Santa Clara's claim of an expectation of a continued supply of any particular quantity of CVP power. Indeed, the written contract between the Secretary and Santa Clara authorizes the Secretary unilaterally to withdraw CVP power from the city's allocation (R. 54; Exh. 7). Cf. *Smith v. Organization of Foster Families*, 431 U.S. 816, 856 (Stewart, J., concurring). Both the Reclamation Act and the contract thus provide the Secretary with discretion in deciding whether to allocate or withdraw CVP power to or from preference customers. No fact that Santa Clara could prove at a hearing would require the Secretary to deliver power to it. The court of appeals was thus correct in its conclusion that Santa Clara possesses no entitlement or other property interest that is affected by the Secretary's allocation of the power among preference customers.¹²

¹² *Memphis Light, Gas & Water Division v. Craft*, No. 76-39, decided May 1, 1978, is not to the contrary. In that case the Court emphasized that residential electrical service could not be terminated "at will" under state law, and that due process required that some opportunity be given a customer to demonstrate that there was no just cause for the termination. Slip op. 9-16. In this case, however, there is no statutory or contractual restriction on the Secretary's discretion to allocate CVP power among preference customers.

4. Petitioner PG & E contends (78-9 Pet. 11-15) that the court of appeals erred in concluding that the "conditional sales" agreement between the Secretary and PG & E (a non-preference customer) is inconsistent with the preference requirement of the Reclamation Act (Pet. App. 18a-20a). We agree with PG & E that the conditional sale of CVP power to a private utility that undertakes to return the power upon the Secretary's future demand is consistent with the preference requirement where, as here, the purpose of the arrangement is to assure that firm power will be available to preference customers during any temporary future shortages of production at the CVP hydroelectric facilities. The Secretary's reasonable interpretation of the preference requirement should not have been rejected by the court of appeals. See *Train v. Natural Resources Defense Council*, 421 U.S. 60, 87; *Udall v. Tallman*, 380 U.S. 1, 16.

We do not, however, believe that the Court should review this question at this time. The court of appeals did not hold the conditional sales of CVP power to PG & E to be invalid; instead, the court remanded the case to the district court for it to determine whether these sales are justified by the need to protect "the efficiency of the project for irrigation purposes," 43 U.S.C. 485h(c) (Pet. App. 19a-20a). The court also indicated that the Secretary and PG & E may raise all other justifications or defenses concerning these conditional sales. Because the opportunity exists for further development of these defenses on remand, there is no substantial need for

immediate review of the decision of the court of appeals.

5. Petitioner PG & E also argues (78-9 Pet. 15-19) that, even if the conditional sales of CVP power to PG & E were invalid, they may not now be declared void. But because the court of appeals did not determine that the conditional sales were invalid, the case does not present such a question.

CONCLUSION

The petitions for a writ of certiorari should be denied.

Respectfully submitted.

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